

DIAGEO – Submission to Parliamentary Joint Committee on Law Enforcement Inquiry: Combatting Crime as a Service (CaaS)

Spirits industry proposals to reduce the *Alcohol Tax Gap* and thus reduce the incentives for organised crime to develop CaaS toolkits for trade in illicit spirits

Overview

Challenges: The *Alcohol Tax Gap* for excisable distilled spirits products in Australia is now over \$700m pa and is on a trajectory to exceed \$1 billion pa in coming years. Effectively, one in ten spirits bottles sold in Australia is the subject of illicit activity, which is increasingly compromising the integrity of the distilled spirits supply chain across the country.

The growing lucrative trading opportunity in illicit spirits has the potential to attract criminal networks to establish and expand businesses to exploit increasing opportunities from trading in (otherwise) legal products. This has occurred over recent years in Australia through the proliferation of grey market opportunities with illicit tobacco.

This problem is an emerging example of *Crime as a Service* (CaaS), with multiple websites already established to provide detailed instructions for how legitimate alcohol traders can set up online trading platforms. See alcohol trading guidance for *Shopify*, as an example, in *Attachment 1*. It is very likely that the \$1 billion revenue opportunity in the spirits *Alcohol Tax Gap* in coming years will incentivise criminal networks to develop parallel CaaS toolkits on the dark web for trade in illicit spirits.

Solutions: Diageo has developed three detailed proposals (excluding changes to spirits excise duty rates) that will reduce the *Alcohol Tax Gap* and therefore reduce the incentives for organised crime to develop CaaS toolkits on the dark web to accelerate activity in illicit spirits supply chains:

Proposal 1: That the *Uniform Business Experience* (i.e. the single administration) for imported and exported spirits be re-examined.¹ This reform has the potential to reduce revenue leakage, including from spirits export diversion;

Proposal 2: That remission-based revenue leakage be addressed by amending the *Alcohol Manufacturer's Remission (AMR) Scheme* to:

1. Strengthen the definition of an eligible 'alcohol manufacturer';
2. Strengthen the definition of 'legally and economically independent'; and
3. Introduce a packaging and branding requirement.

Proposal 3: That the findings of the *Spirits Sector Blockchain Pilot* should form the basis of a renewed investigation of the potential for blockchain technology to assist reduce revenue leakage in spirits import and export supply chains.

¹ 'Like imported goods' (referred to as 'excise equivalent goods') are similar to locally-produced goods that are subject to excise duty. The (imported) excise equivalent goods are subject to different legislative and regulatory frameworks that are administered by the Australian Border Force (ABF) (Department of Home Affairs), whilst the excise system is administered by the Australian Taxation Office (ATO).

The Challenges

Spirits industry

Economic contribution of the spirits industry

Distilleries make an important contribution to local and regional economies across Australia. However, alcohol beverage production can be operationally complex, with onerous licensing requirements, capital costs and on-going cashflow implications of regular excise duty payment obligations. Despite this, legitimate distilleries and their downstream distribution supply chains employ thousands of Australians and support countless jobs, from suppliers in Australia's agricultural sector to the burgeoning regional hospitality sector.

A *Spirits industry sector competitiveness plan* (the *Competitiveness Plan*) was commissioned by Bundaberg Rum/Diageo and the *Australian Distillers Association* (ADA) in 2024.² The *Competitiveness Plan* estimated that the economic contribution of the spirits industry is \$1.2 billion p.a. and the industry supports over 7,600 full time jobs.³

Diageo Australia (Diageo) is the leading spirits company in Australia. Diageo's global brands include *Johnnie Walker*, *Tanqueray*, *Baileys*, *Smirnoff*, *Gordon's* etc. Diageo is the parent company of the iconic *Bundaberg Rum Company*, which owns and operates the world-renowned Bundaberg Rum Distillery in Bundaberg, Queensland. Diageo has also invested in other local spirits producers (such as *Starward* in Melbourne).

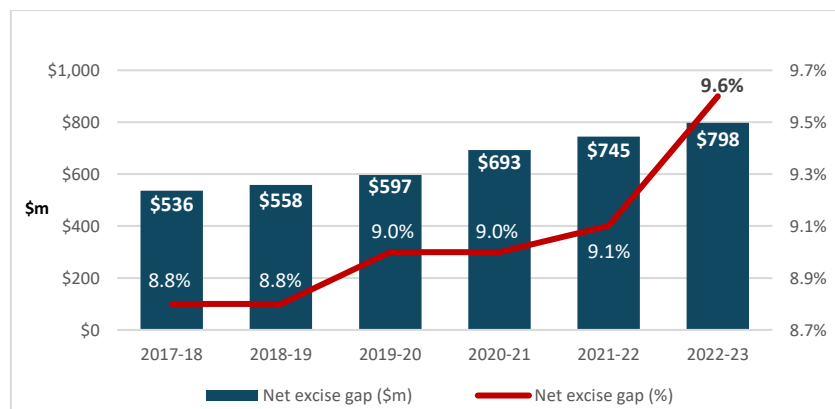
Growing Alcohol Tax Gap on spirits – potential to attract organised crime

Illicit activity in the spirits sector incentivises organised criminal networks

Lost excise duty revenue on alcohol (primarily spirits) was estimated by the Australian Taxation Office (ATO) to cost the Federal Government approximately \$798m in 2022-23.⁴ Around \$709 million of the unreported alcohol duty was due to illicit activity in the shadow economy. This lost revenue is called 'The Alcohol Tax Gap'⁵ and it has been steadily growing. It now accounts for 9.6% of total alcohol duty (\$7.5 billion).⁶

Effectively, this means that approximately one in ten bottles of spirits sold in Australia has been the subject of illicit activity. See *Figure 1*.

Figure 1: Excise leakage grows to 9.6% of alcohol excise duty market (spirits, RTDs and beer)



² *Spirits industry sector competitiveness plan*, Mandala, March 2024.

³ *Ibid.*, pg. 3.

⁴ ATO 2022-23 *Alcohol Tax Gap* (published Nov 2024)

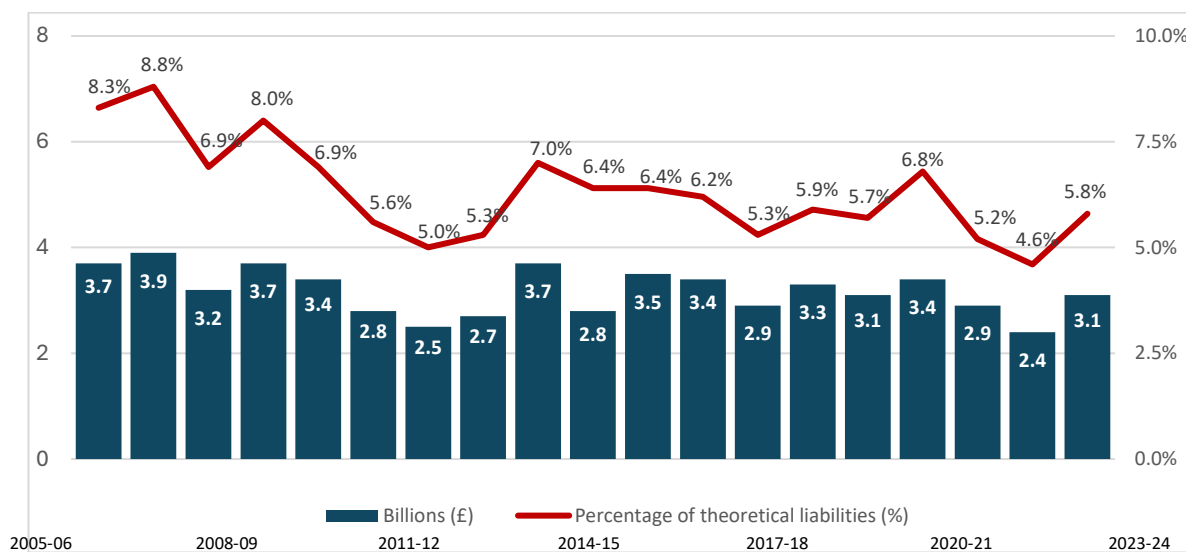
⁵ The 'Alcohol Tax Gap' does not include revenue lost on wine. That is subject to a separate ATO calculation called the 'WET Tax Gap'. It includes spirits, liqueurs and ready-to-drink products (RTDs).

⁶ *Ibid.*, pg. 1.

The rate of increase in the Tax Gap has it on a trajectory to exceed \$1 billion in coming years. This lucrative trading opportunity in illicit spirits has the potential to attract criminal networks, as has occurred in the case of lucrative grey market opportunities with illicit tobacco.

The recent growth in Australia's Alcohol Tax Gap is in stark contrast to the trend for key product categories in like advanced economies. For example, in the United Kingdom the tax gap for duties collected on distilled spirits has fallen from a peak rate of 10.6 per cent in 2013 to a rate of only 1.4 per cent in 2023.⁷ Whilst noting that the tax gap for beer products has increased markedly in the UK over recent years, the decline in the distilled spirits tax gap reflects the overall tax gap decline across the broader suite of excisable goods in the UK, including hydrocarbons, gaming and tobacco. See Figure 2.

Figure 2: United Kingdom – Excise tax gap as a percentage of theoretical liabilities (2002-06 to 2023-24)



[Figure 2 Note: % of projected theoretical liabilities between 2020-21 and 2023-24]

Internationally, alcohol tax gaps vary considerably and are driven by a range of factors that are unique to the local market. For example, the alcohol tax gap in the Czech Republic (a European Union member and Organization for Economic Cooperation and Development (OECD) country) is reported at between 5 and 7.1 per cent, whilst in Russia the tax gap is as high as 36 per cent.⁸

Crime as a Service – illicit/non-tax paid products

Multiple websites provide detailed instructions for how legitimate alcohol traders can set up online trading platforms. See alcohol trading guidance for Shopify, as an example, in Attachment 1.

The digital underground comprises websites and forums on the dark web. These are marketplaces and hubs where, for example, illicit products are bought and sold. The European Cybercrime Centre of Europol has identified that “... these markets offer browsers a place to acquire almost any illicit commodity ...”.⁹

A growing alcohol tax gap in Australia risks fuelling greater illegal activity – which further risks the integrity of the alcohol supply chain (especially distilled spirits). It is entirely foreseeable that criminal enterprises will develop CaaS toolkits to sell to those motivated to profit from the resale of illicit spirits in Australia.

Identifying and mitigating the causes of the revenue leakage that contributes to the growing Alcohol Tax Gap will also reduce the incentives for criminals to develop CaaS toolkits for use in the trade of illicit spirits. Increasingly, alcohol tax leakage is arising through the unintended usage of policy measures and incentives that

⁷ HM Revenue & Customs. (2025) Tax gaps: Excise (including alcohol, tobacco and oils), GOV.UK. Available at: <https://www.gov.uk/government/statistics/measuring-tax-gaps/3-tax-gaps-excise-including-alcohol-tobacco-and-oils>

⁸ Euromonitor International, 2018. Size and Shape of the Global Illicit Alcohol Market, accessed through Transnational Alliance to Combat Illicit Trade: https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_-_white_paper.pdf

⁹ European Cybercrime Centre EC³, Europol, The Internet Organised Crime Threat Assessment (iOCTA), 2025

have been designed with the legitimate intent of supporting legitimate and compliant small spirits producers. By ‘gaming’ measures such as the *Alcohol Manufacturer’s Remission (AMR) Scheme* (See Issue #2), a growing volume of product is entering the market effectively non-tax paid. In addition to reduced government revenue, this growing problem is impacting the competitive dynamic of the market – and creating avenues for unscrupulous operators to thrive.

Non-tax paid alcohol falls within the international definition of ‘Unregulated’ alcohol, as defined by global peak body the International Alliance for Responsible Drinking (IARD). Unregulated alcohol includes alcohol beverages produced outside of a country’s regulatory framework, which consequently limits the ability of governments to:

- a. Adequately regulate the efficacy and safety of products in the market; and
- b. Collect alcohol tax revenues, which are designed to address the impacts of alcohol-related harm in society (‘negative externalities’).

Unregulated alcohol includes both *Informal alcohol* (often produced within local communities outside of formal regulatory channels) and *Illicit alcohol*. Illicit alcohol includes legal (or ‘licit’) alcohol beverages that have fraudulently entered a market (i.e. smuggled, counterfeit or parallel imports) to evade tax, as well as fraudulent, imitation or surrogate products that could cause harm to consumers. IARD’s Taxonomy of unregulated alcohol provides the following classifications:

Figure 3: Global classification of Regulated and Unregulated Alcohol¹⁰

Regulated Alcohol		Unregulated Alcohol					
Recorded Alcohol	Unrecorded Alcohol	Informal	Illicit				
		Informal Alcohol	Contraband /Smuggled Alcohol	Counterfeit Alcohol	Tax Leakage	Non-Conforming Alcohol	Surrogate Alcohol

This submission does not draw parallels between the growing alcohol tax gap in Australia and the problems associated with tainted counterfeit alcohol (i.e. tragic poisoning due to consuming products laced with methanol). These issues are generally more prevalent in developing economies with less-sophisticated regulatory settings governing supply chain integrity, food and product safety.

What the IARD taxonomy demonstrates, however, is the key presence of **tax leakage** and illegitimately traded **contraband/smuggled** alcohol in the global scourge of illicit alcohol. Government and industry alike have a shared objective (indeed a responsibility) to tackle illicit alcohol and bring the unregulated alcohol trade into the regulated fold.

More broadly, the imperative of addressing illicit trade is greater than ever – and is acknowledged by policy makers around the world. The OECD acknowledges that the illicit trade in alcohol can severely impact the regulated alcohol market and distort investment in the legitimate market. Acknowledging the ‘critical link between alcohol and illicit trade’, the OECD argues that policy makers should formulate ‘comprehensive strategies to combat illicit trade’, including more comprehensive policies that recognise the importance of a strong and viable market for licit trade.¹¹

¹⁰ Sourced from Alcohol in the Shadow Economy: Unregulated, Untaxed and Potentially toxic, IARD, analysis by Euromonitor, 2018, available at <https://www.iard.org/getattachment/1b56787b-cc6d-4ebb-989f-6684cf1df624/alcohol-in-the-shadow-economy.pdf>

¹¹ OECD (2022), Illicit Trade in High-Risk Sectors: Implications of Illicit Alcohol for Public Health and Criminal Networks, Illicit Trade, OECD Publishing, Paris, <https://doi.org/10.1787/1334c634-en>.

Causes of alcohol tax revenue leakage

The growing alcohol tax leakage challenge in Australia is acknowledged by government and industry alike. According to the ATO, the activities which result in these spirits revenue losses include:

1. Unauthorised manufacture and unpaid excise duty;
2. Authorised manufacture with under-reported or unpaid excise duty;
3. Product diversion;
4. Cross-border transactions (smuggling or **export diversion**); [See Issue #1] and
5. Deliberate fraud and evasion.

Diageo wishes to add two additional contemporary causes of revenue losses:

6. Exploitation of the existing Alcohol Manufacturers Remission (AMR) Scheme. [See Issue #2]
7. Dual administration of the border for imported and exported spirits. [See Issue #3]

There are at least three key issues contributing to the current *Alcohol Tax Gap* which can be addressed by new innovative regulatory approaches. These issues are discussed below.

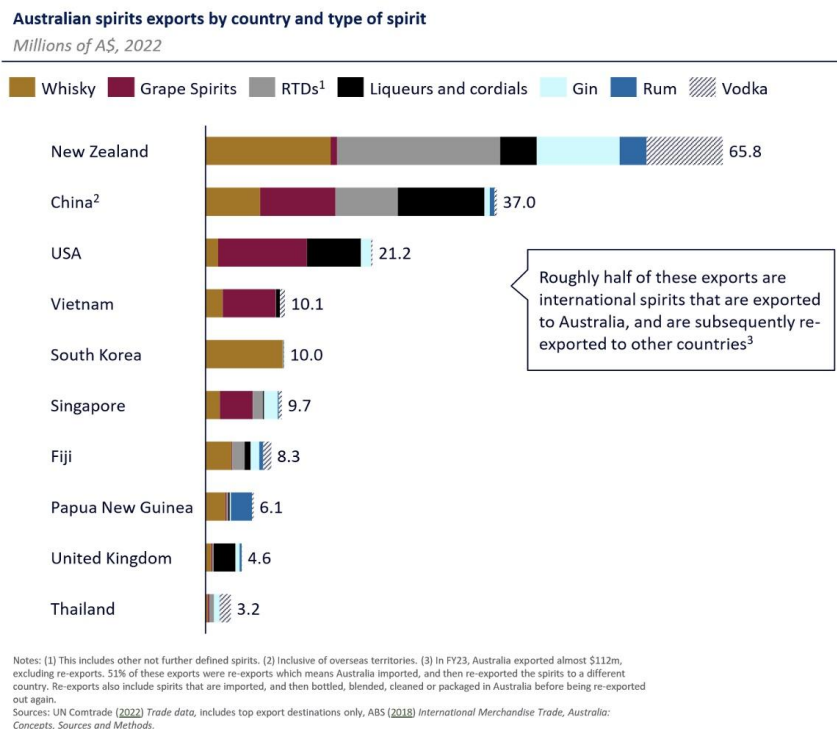
Issue #1: Export diversion of imported spirits

The issue of export diversion of imported spirits, in particular, is susceptible to increasing amounts of criminal activity at the border which could be the subject of CaaS toolkits.

Extent of re-exported spirits

The *Competitiveness Plan* estimated that **approximately 50 per cent** of spirits exports from Australia were not of spirits distilled in Australia. That is, these products were international spirits sourced from overseas, imported into Australia and then re-exported. Alternatively, they may have been blended in Australia, utilising imported bulk spirits.¹² See Figure 4.

Figure 4: 50% of spirits exports are re-exports of international spirits (ripe for export diversion)



¹² Ibid., pg. 12.

Risks of export diversion

A KPMG report for the Department of Home Affairs on Australia's *Alcohol Import/Export Market* identified a Government estimate that **up to 30 per cent** of exported spirits were potentially illegally diverted into the domestic market.¹³

In practical supply chain terms, this illegal practice involves international spirits purchased overseas being (parallel)¹⁴ imported into Australia (with the correct duty payment). Those spirits are then reported to Customs as having been later re-exported, with a drawback of the import duty then being refunded to the importer. However, if the goods are subsequently illegally diverted into the domestic market (rather than being exported), then the illicit goods enter domestic supply chains without any duty burden (effectively non-tax paid).

KPMG also referred to compelling spirits industry evidence presented to a Parliamentary Committee regarding illicit patterns of border activity in relation to re-exported spirits. One key example presented was Scotch whisky allegedly being imported into Australia and then being re-exported to Scotland.¹⁵

The spirits industry has been alarmed by the accelerating levels of parallel imported branded spirits products. These products' retail selling prices are well below similarly branded legitimately imported spirits products that are paying their legal duties. A parallel imported bottle of *Johnnie Walker* Scotch whisky may have been purchased in another market (e.g. in the European Union) and then transported to Australia and imported by a competitor of Diageo, which has the distribution rights in Australia for the brand. This is not an illegal practice for distilled spirits products¹⁶. However, when the retail price of the parallel imported bottle is lower than could be possible if the correct excise-equivalent duty had been paid on importation, this is clearly a case of duty evasion, most likely involving export diversion.

All of the warehousing, distribution, transport and retail businesses in the legitimate downstream supply chains of the major spirits importers are being disadvantaged by the existence of competitor firms dealing with illicit products which are not paying their effective legal taxation liabilities, often due to export diversion.

Diageo has developed potential solutions to address the issue of export diversion of international spirits, as set out in Proposals #1 and #3 below.

Issue #2: Revenue losses under the Alcohol Manufacturer's Remission (AMR) Scheme

Background

Jurisdictions around the world have enacted various measures to reduce the excise duty burden on small-scale domestic producers. The Australian Government (via the ATO) administers the *Excise Remission Scheme for Alcohol Manufacturers* (referred to by the ATO as the AMR Scheme). From July 2021, the Remission Scheme:

"... provides eligible alcohol manufacturers with a full (100%) automatic remission of excise duty, up to a maximum of \$350,000 per financial year, on alcoholic beverages they manufacture and enter into the Australian domestic market for home consumption."

By targeting the first \$350,000 of excise payable, the policy intent of the Remission Scheme has been to support legitimate small-scale distilleries and breweries – acknowledging the economic benefits and jobs they provide for Australia's regional communities.

¹³ KPMG, *Analysis of the Australian Alcohol Import/Export Market*, 30 June 2019 (released under FOI by the Department of Home Affairs) pg. 9.

¹⁴ Parallel imports are imports of products by an entity other than the primary brand owner.

¹⁵ Ibid., pg. 74

¹⁶ Parallel imports are only regulated or restricted at a product-specific level for a small range of select products (e.g. motor vehicles).

The Government has announced that the maximum ceiling for automatic remission will be increased to \$400,000 from 1 July 2026. A similar increase will apply to the wine producer rebate for small wineries under the separate Wine Equalisation Tax (WET).

Unfortunately, the regulation changes since 2021 have had the unintended consequence of incentivising commercial arrangements to ‘game’ the AMR Scheme (as noted earlier). By aggregating supply of alcohol from multiple AMR Scheme recipients, large on-trade retailers (with significant sales of ‘generic’ spirits for mixed drinks) are able to effectively utilise multiple \$350,000 excise remissions. This commercial aggregation practice is not consistent with the policy intent of supporting small producers.

This issue was highlighted in a submission to the Federal Parliamentary Inquiry into *Food and Beverage Manufacturing in Australia* (the Parliamentary Committee) by Adam Carpenter from *Prohibition Liquor Co.* in South Australia:

“... spirit(s) makers are walking into venues all over Australia, with drums of gins or vodkas, selling to bars at \$25-\$35 per litre, a product which should cost more than \$43/L in excise value alone. This completely renders distilleries which pay excise, employ staff, generate exports and build the economy, unable to compete on price in such a price-sensitive market.”

On face value these business models may, to all intents and purposes, meet the AMR Scheme’s literal independence and ‘small ownership’ requirements. However, it is evident that their overwhelming purpose can be to produce spirits for a large single entity which, when aggregated, can easily lead to avoiding the payment of millions of dollars of excise duty and undercutting legitimate distillers.

The Parliamentary Committee’s final report, *Food for Thought*, included the comment that the Committee felt that its Terms of Reference “... did not enable it to give full consideration to (such) complex (technical) issues ...” as these.¹⁷

However, the overall impact of the current administrative interpretations of the AMR Scheme legislation and *Excise Regulations* are causing significant revenue losses which contribute to the *Alcohol Tax Gap*. This issue is relevant to the current Combatting CaaS Inquiry.

Diageo has developed potential solutions to address the issue of revenue losses under the AMR Scheme, as set out in Proposal #2 below.

Issue #3: Administrative duplication leads to revenue leakage

Spirits industry subject to administrative duplication

The growing regulatory burden of dealing with two Government regulators, (the Australian Border Force (ABF) and the ATO), in relation to imported and exported spirits has been causing increasing compliance and regulatory complexity for spirits importers for many years. This administrative duplication and complexity is likely leading to revenue leakage opportunities for unscrupulous operators. See a detailed depiction by KPMG of the complex import/export supply chains for spirits in *Attachment 2*.

Australia’s Constitution requires that excises payable on locally produced goods, such as spirits, collected by the ATO, cannot be applied to imported goods. Consequently (and as noted earlier), Australia imposes customs duty on imported spirits, collected by the ABF, at equivalent rates as the excise that applies to the similar products when locally produced. These customs duties are referred to as “excise-equivalent duties”.

Deregulation task incomplete

In the March 2022–23 Budget, the then Coalition government announced a package of measures to streamline the administration of alcohol (and fuel) excise. The *Streamlining excise administration for fuel and alcohol package* was the culmination of the work of the *Deregulation Taskforce*, which undertook a comprehensive consultation process with the spirits (and other) industries.

¹⁷ *Food for Thought*, House of Representatives, House Standing Committee on Industry, Science and Resources, pg 130

The companies involved in the consultation (through their respective industry associations) included both local spirits manufacturers (such as *Bundaberg Rum*) as well as the importers of major spirits brands (such as *Diageo*).

The work of the Taskforce identified a range of priorities for amending or removing archaic regulations in the sector to reduce compliance costs and thus enhance business dynamism and resilience.

The *Deregulation Package* was intended to deliver \$1.6 billion in savings over four years, with annual savings of \$20 million in compliance costs for around 1,200 alcohol and fuel businesses. The package was expected to lift productivity and produce other economic benefits.

The Albanese Government is to be commended for implementing the majority of the recommendations of the former *Deregulation Taskforce* and for proceeding with many technical regulatory amendments. Unfortunately, the most significant measure in the package has not been implemented, '*at this time*'.

The *Deregulation Package* specifically referred to its aim of "*removing overlapping administration at the border*". (See the then Minister's press release of 31 March 2022.)

The recommendations of the *Deregulation Taskforce* included, arguably, the most significant recommendation, which is referred to as the "*Uniform Business Experience*" or '*the single administration*'. This referred to the proposed transfer from the ABF to the ATO of the legal and administrative responsibility for the excise-equivalent duty regime. This was a significant future regulatory reform which had the potential to reduce the increasing regulatory burden on spirits importers and their downstream supply chain firms and possibly mitigate existing revenue losses. It would have created a single administrator (i.e. the ATO) in place of the current two administrators in relation to imported and exported spirits and would have enabled the ABF to further focus on its core objective of managing and enforcing the security and integrity of Australia's border.

Diageo and the entire spirits industry strongly welcomed the potential reform at the time. In particular, the move to a 'single administration' for imported spirits would create increased leverage for the ATO, as the primary regulator of the spirits industry, to take concerted action against parallel importers of branded spirits. These unscrupulous operators are not paying the legal amounts of excise-equivalent duty on the parallel imports, by virtue of export diversion and other activities.

However, in the 2023–24 *Mid-Year Economic and Fiscal Outlook (MYEFO)* the government announced the *Uniform Business Experience* (i.e. the single administration) component of the *Deregulation Package* would no longer proceed. The reasons given were due to design complexities identified during implementation of that component and that "... the original policy intent cannot be achieved **at this time**." (emphasis added)

Diageo recommends that the *Uniform Business Experience* proposal should be re-examined, as set out in Proposal #1 as below.

The Solutions

Diageo has prioritised three proposals for regulatory reform (excluding any changes to excise duty taxation rates). Each of these addresses the three issues identified in this submission.

Each proposal will contribute to reducing the *Alcohol Tax Gap*, which will enhance supply chain integrity, stakeholder confidence (including consumers) and thus reduce the incentives for organised crime to enter spirits supply chains utilising CaaS toolkits potentially promoted on the dark web.

Proposal #1: Uniform business experience (the single administration) for imported and exported spirits

Diageo and the spirits industry believe that the *Uniform Business Experience* reforms, as announced, still have the potential to address the issue of revenue leakage due to export diversion and other activities.

Ideally, an *Impact Analysis* study should be undertaken of the potential regulatory benefits and *Alcohol Tax Gap* reductions which would flow from implementation of the *Uniform Business Experience* (the single administration) for imported and exported spirits.

Recommendation

Diageo strongly recommends it is now time for the *Uniform Business Experience* (i.e. the single administration) for imported and exported spirits to be re-examined. This reform has the potential to reduce the *Alcohol Tax Gap* and therefore reduce the incentives for organised crime to develop CaaS tools to accelerate illicit activity in spirits supply chains.

Proposal #2: Alcohol Manufacturer's Remission (AMR) amendments

The ATO has publicly invited industry to suggest measures to address unintended revenue leakage in the AMR Scheme¹⁸. Diageo believes that the current revenue leakage under the AMR Scheme and *Excise Regulations* can be mitigated with amendments to the regulations.

Ideally, an *Impact Analysis* study should be undertaken of the potential regulatory benefits and *Alcohol Tax Gap* reductions which would flow from tightening the AMR regulations to achieve their original intended purpose.

Recommendations

Diageo recommends that the AMR Scheme be urgently reviewed and, at least, that the *Excise Regulations* be amended to:

1. **Strengthen the definition of an eligible 'alcohol manufacturer'**, to require the selling of excisable beverages (whether wholesale or retail) on which excise has been paid, directly from the manufacturing premises – reintroducing a condition of the original Microbreweries Rebate that was removed in a later expansion of the scheme;
2. **Strengthen the definition of 'legally and economically independent'** to explicitly clarify that a manufacturer cannot be deemed independent if its sole or primary purpose is to supply a third party which aggregates/pools purchases from multiple suppliers who are eligible for the AMR Scheme; and
3. **Introduce a packaging and branding requirement**, for eligible products to be sold in recognisable retail units (e.g. 700ml/1 litre bottles or not bulk over 5 litres) and be clearly branded with the eligible manufacturer's registered trademark (akin to WET Rebate requirements).

¹⁸ See ATO *Alcohol Stakeholder Group* meeting of 19 August 2025 Minutes (items 3-8 and 3-10).

Proposal #3: Blockchain technology to be applied to the spirits industry's provenance

Background

The former *Department of Industry, Energy and Resources* (DISER) was very insightful in understanding how blockchain technology could reduce the regulatory burden on businesses in the spirits sector and reduce the *Alcohol Tax Gap*. DISER released the *National Blockchain Roadmap in 2020* (the Roadmap). It quickly became a catalyst for a national conversation about Australia's blockchain strategy, helping to highlight the enormous opportunities for the technology across the economy.

A *Spirits Sector Blockchain Pilot* (the Pilot) was funded by the *Blockchain Pilot Grants Program* established as a result of the Roadmap. DISER effectively commissioned a report on how blockchain could be used to improve the controls and administrative efficiency of excise duty on spirits and reduce the *Alcohol Tax Gap*.

The Pilot's objectives were to demonstrate the potential for blockchain to reduce the regulatory compliance burden for spirits businesses, develop blockchain solutions for government and showcase to industry the viability of the regulatory efficiencies.

Convergence.Tech, a global technology company and leading blockchain solution provider, and KPMG, jointly led the Pilot, working closely with the regulator (the ATO) and the spirits industry. The Pilot assessed key administrative and compliance burdens impacting the regulator and industry. *Convergence.Tech* addressed these challenges through the design and development of the *Blockchain Excise Platform*.

In the platform, the *Selecting and Engaging Procedures* (SEP) connects industry (i.e. distillers/producers and distributors/wholesalers) and the regulator via a private permissioned blockchain. The blockchain provides a real-time ledger, digitising and tracking the excisable commodity (alcohol/spirits) as it is produced, matured and distributed across the supply chain. *Convergence.Tech's* revolutionary platform also enables a *Global and Domestic Trusted Distiller Program* to be introduced that could lead to privileged trading benefits and a significant reduction in the excise tax administrative burden.

Whilst the Pilot focused on spirits, the capability can be extended and applied to other excisable commodities (e.g. beer, fuel, tobacco) and supply chains (e.g. hydrogen) which deliver significant benefits for regulators, industry and taxpayers.

At that time, the application of blockchain technology to the spirits sector had the potential to recover at least \$45m annually in lost excise duty revenue (based on KPMG analysis).¹⁹ The likely reduction in the *Alcohol Tax Gap* as a result of the innovation of blockchain technology in spirits import and export supply chains is expected to be even greater now, as the *Alcohol Tax Gap* is expanding.

Diageo and the spirits industry agree that the application of blockchain technology has the potential to reduce the *Alcohol Tax Gap* in relation to spirits. Burdened with administrative oversight, cashflow impediments and fighting a market burdened with illicit activity, bona fide local spirits producers wish to be released from the current excise and production constraints in order to compete more equally in this market.

The Pilot concluded in 2022²⁰ and was widely recognised as a success by government and industry, with significant interest from overseas regulators. Unfortunately, the opportunity to further develop the blockchain insights from the Pilot has not been pursued.

Diageo believes that blockchain technology has a significant potential to significantly reduce the *Alcohol Tax Gap*.

Ideally, an *Impact Analysis* study should be undertaken of the potential regulatory benefits and *Alcohol Tax Gap* reductions which would flow from further developing blockchain technology for the spirits sector.

¹⁹ See *To Excise and Beyond*, the National Blockchain Pilot Report, *Convergence.Tech*, 2022

²⁰ *Ibid.*

Recommendation

Diageo recommends that the findings of the *Spirits Sector Blockchain Pilot* should form the basis of a renewed investigation of the potential for blockchain technology to reduce the *Alcohol Tax Gap* and therefore reduce the incentives for organised crime to develop CaaS tools to accelerate illicit activity in spirits supply chains.

Conclusion

The imperative of addressing illicit trade is greater than ever – and is acknowledged by policy makers around the world including the OECD. It is critical that Australian policy makers take the opportunity to ‘get on the front foot’ and mitigate the incentive for additional criminal actors to enter the market and exploit opportunities provided by an ever-increasing Alcohol Tax Gap.

The three regulatory reform proposals outlined in this proposal (which exclude changes to spirits excise duty taxation rates) have the potential to reduce the *Alcohol Tax Gap* and therefore reduce the incentives for organised crime to develop CaaS tools relating to illicit spirits.

October 2025

Attachments: See pdf pack